

**MILFORD CENTER  
AUDIT REPORT  
MEDICAID COST REPORT AND  
NURSING WAGE SURVEY  
JUNE 30, 2005**

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## Independent Auditors' Report

State of Delaware  
Office of Auditor of Accounts  
Dover, Delaware

We have audited the Statement of Reimbursement Cost for Skilled and Intermediate Care Nursing Facilities – Title XIX, pages 2 through 6 (the Cost Report) and Nursing Wage Survey (the Survey) of Milford Center (the Facility) for the year ended June 30, 2005. The Cost Report and Survey are the responsibility of the Facility's management. Our responsibility is to express an opinion on the Cost Report and Survey based on our audit, which are not affixed hereto.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Cost Report and Survey are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Cost Report and Survey. An audit also includes assessing the accounting principles and Medicaid principles of cost reimbursement used and significant estimates made by management, as well as evaluation of the overall presentation of the Cost Report and Survey. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, except for the accompanying Schedule of Adjustments, the Cost Report and Survey of Milford Center referred to above presents fairly, in all material respects, the reimbursement costs of the Facility for the year ended June 30, 2005 in conformity with accounting principles generally accepted in the United States of America and Medicaid principles of cost reimbursement.

## Independent Auditors' Report (Cont'd.)

In accordance with *Government Auditing Standards*, we also issued our report dated March 2, 2008 on our consideration of the Facility's internal control over reporting for the Cost Report and Survey and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*McBride, Shopa & Co*

Wilmington, Delaware  
March 2, 2008

**MILFORD CENTER**  
**SCHEDULE OF ADJUSTMENTS TO THE STATEMENT OF REIMBURSEMENT**  
**COST FOR SKILLED AND INTERMEDIATE CARE NURSING FACILITIES - TITLE XIX**  
**AND THE NURSING WAGE SURVEY**  
**YEAR ENDED JUNE 30, 2005**

<u>Description</u>	<u>Page</u>	<u>Line</u>	<u>As Filed Amounts</u>	<u>Audit Adjustments</u> <u>No.</u>	<u>Amount</u>	<u>Adjusted Amounts</u>	<u>Adjusted Cost Per Day</u>	<u>Note Ref.</u>
<b><u>PART I - COST REPORT TRIAL BALANCE AND ADJUSTMENTS</u></b>								
<i>Primary Patient Care Costs - (lines 1-5)</i>								
Nursing Staff Salaries	2	1b	\$ 3,076,849	1	\$ (10,336)	\$ 3,066,513		S-2
Unadjusted lines	2	1a, 2-4	<u>742,463</u>		<u>-</u>	<u>742,463</u>		
<b>Subtotal - Primary Patient Care Costs</b>	<b>2</b>	<b>5</b>	<b>3,819,312</b>		<b>(10,336)</b>	<b>3,808,976</b>	<b>\$ 78.70</b>	
<i>Secondary Patient Care Costs - (lines 6-14)</i>								
Social Services	2	7	137,691	1	42	137,733		O-2
Employee Benefits	2	8	108,060	2	(70,979)	37,081		S-1
Medical Supplies	2	10	195,618	3	(2,365)	193,253		O-2
Other	2	12	151	4	(120)	31		
Unadjusted lines	2	6, 9, 11	<u>279,112</u>		<u>-</u>	<u>279,112</u>		
<b>Subtotal - Secondary Patient Care Costs</b>	<b>2</b>	<b>14</b>	<b>720,632</b>		<b>(73,422)</b>	<b>647,210</b>	<b>13.37</b>	
<i>Support Service Costs - unadjusted (lines 15-22)</i>	<b>2</b>	<b>22</b>	<b>1,250,871</b>		<b>-</b>	<b>1,250,871</b>	<b>25.84</b>	
<i>Administrative &amp; Routine Costs (lines 23-32)</i>								
Other Administrative Salaries	2	25	498,905	1	10,336	509,241		S-2
Employee Benefits	2	26	74,153	2	70,979	145,132		S-1
Home Office - Admin	3	30	517,294	3	2,619	519,913		HO-1
Other	3	31	251,192	4	(2,020) 2,323	251,495		O-1 O-2
Unadjusted lines	3	23-24, 27-29, 31	<u>112,922</u>		<u>-</u>	<u>112,922</u>		
<b>Subtotal - Administrative &amp; Routine</b>	<b>3</b>	<b>32</b>	<b>1,454,466</b>		<b>84,237</b>	<b>1,538,703</b>	<b>31.79</b>	
<i>Capital Costs - unadjusted (lines 33-39)</i>	<b>3</b>	<b>39</b>	<b>532,560</b>		<b>-</b>	<b>532,560</b>	<b>11.00</b>	
<b>SUBTOTAL</b>	<b>3</b>	<b>40</b>	<b>7,777,841</b>		<b>479</b>	<b>7,778,320</b>	<b>160.70</b>	

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**SCHEDULE OF ADJUSTMENTS TO THE STATEMENT OF REIMBURSEMENT**  
**COST FOR SKILLED AND INTERMEDIATE CARE NURSING FACILITIES - TITLE XIX**  
**AND THE NURSING WAGE SURVEY**  
**YEAR ENDED JUNE 30, 2005**

<u>Description</u>	<u>Page</u>	<u>Line</u>	<u>As Filed</u> <u>Amounts</u>	<u>Audit</u> <u>Adjustments</u> <u>No.</u> <u>Amount</u>	<u>Adjusted</u> <u>Amounts</u>	<u>Adjusted</u> <u>Cost</u> <u>Per Day</u>	<u>Note</u> <u>Ref.</u>
<b><u>PART I - COST REPORT TRIAL BALANCE AND ADJUSTMENTS (Cont'd.)</u></b>							
<i>Ancillary Costs (lines 41-49)</i>							
Other & Employee Benefits	3	48	21,353	1   (303)	21,050		O-1
Unadjusted lines	3	41-47	<u>573,520</u>	<u>-</u>	<u>573,520</u>		
<b>Subtotal - Ancillary Costs</b>	<b>3</b>	<b>49</b>	<b>594,873</b>	<b>(303)</b>	<b>594,570</b>	<b>12.28</b>	
<i>Other Costs - unadjusted (lines 50-52)</i>	<b>3</b>	<b>52</b>	<u><b>16,815</b></u>	<u><b>-</b></u>	<u><b>16,815</b></u>	<u><b>0.35</b></u>	
<b>TOTAL COSTS</b>	<b>3</b>	<b>53</b>	<u><u><b>\$ 8,389,529</b></u></u>	<u><u><b>\$ 176</b></u></u>	<u><u><b>\$ 8,389,705</b></u></u>	<u><u><b>\$ 173.33</b></u></u>	

**PART II - COST REPORT PATIENT DAYS**

Total beds	6	1, 3	136	136
Total bed days available	6	4	49,640	49,640
90% minimum census threshold	6		44,676	44,676
Total census days	6	5E	48,400	<span style="border: 1px solid black;">48,400</span>

**PART III - NURSING WAGE SURVEY**

***II. Staff Nurse Information***

<b>A.</b>	Percent of Hours Patient Certified - DON	10	A(1)	15%			NWS-1
	Percent of Hours Patient Certified - ADON	10	A(2)	20%			NWS-1
	Administrative Nurses, Occupational Group: CNA's, Total Payroll	11	A(3)	2,966	100	3,066	NWS-2
<b>B.</b>	All Remaining Nursing Staff:						
	Occupational Group - LPN's, Total Payroll	11	B	34,224	(315) 466	34,375	NWS-3 NWS-4
	Occupational Group - LPN's, Total Hours	11	B	1,665	(16) 24	1,673	NWS-3 NWS-4
	Occupational Group - CNA's, Total Hours	11	B	82	(1)	81	NWS-5

**MILFORD CENTER**  
**SCHEDULE OF ADJUSTMENTS TO THE STATEMENT OF REIMBURSEMENT**  
**COST FOR SKILLED AND INTERMEDIATE CARE NURSING FACILITIES - TITLE XIX**  
**AND THE NURSING WAGE SURVEY**  
**YEAR ENDED JUNE 30, 2005**

**PART IV - DETAILED EXPLANATION OF ADJUSTMENTS**

**Adjustments affecting salaries (S):**

- S-1** To correct provider adjustment #29 which was incorrectly recorded to Line 8 instead of Line 26 on the Cost Report
- S-2** To adjust provider adjustments #26-27 to agree with supporting documentation

**Adjustments affecting Home Office Costs (HO):**

- HO-1** To adjust Home Office allocation to agree to Home Office Medicare Cost Report

**Adjustments affecting Other costs (O):**

- O-1** To reclassify costs listed as "ancillary" on the crosswalk into proper cost center
- O-2** To reclassify supplies listed on crosswalk as "Office Supplies" out of Medical Supplies and into proper cost center

**Adjustments affecting Nursing Wage Survey Data**

- NWS-1** To indicate improper allocation of DON and ADON patient-centered time
- NWS-2** To adjust to agree to backup documentation.
- NWS-3** To exclude wages and hours paid in current period which were adjustments from a prior period
- NWS-4** To add wage adjustment included on a subsequent period which were for the current period
- NWS-5** To adjust to agree to backup documentation.

## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON A FINANCIAL AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

State of Delaware  
Office of Auditor of Accounts  
Department of Health & Social Services  
Division of Social Services Medicaid  
Dover, Delaware

We have audited the Statement of Reimbursement Costs for Skilled and Intermediate Care Nursing Facilities – Title XIX, pages 2 through 6 (the Cost Report) and the Nursing Wage Survey (the Survey) for Milford Center (the Facility) for the year ended June 30, 2005, and have issued our report thereon dated March 2, 2008, which was qualified due to the required adjustments reported in the Schedule of Adjustments accompanying it. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

### Internal Control Over Reporting

In planning and performing our audit, we considered the Facility's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the Cost Report and Survey and not to provide an opinion on the internal control over financial reporting.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that misstatements caused by error or fraud in amounts that would be material in relation to the Cost Report and Survey being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses.

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## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Facility's Cost Report and Survey are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of reported amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted certain matters involving instances of immaterial noncompliance and nonreportable conditions or other matters involving internal control over reporting that came to our attention:

**Problem:** The facility incorrectly included a high percentage of time for the Director of Nursing (15%) and the Assistant Director of Nursing (20%) as patient centered hours on the Nursing Wage Survey. The State of Delaware Senate bill Number 135 specifically states that time incurred by the Director of Nursing and the Assistant Director of Nursing should only be patient centered under exigent circumstances, which are required to be approved by the Division prior to the occurrence. Supporting documentation was not received from Management, nor was an explanation given for the higher rate utilized. Consequently, a line for this was included in the adjustment section, however, as no information was obtained as to the correct rate, the amount of the adjustment is indeterminable.

**Suggestion:** Management should review the basis for determining the percentage of time the Director of Nursing and the Assistant Director of Nursing perform patient centered functions. The most appropriate method for determining this percentage of time would be to maintain the records of when the exigent circumstances occur, resulting in these two individuals performing patient centered hours.

\* \* \* \* \*

Problem: Certain employees selected for testing did not have backup in their personnel file supporting their pay rates and positions. Additionally, certain employees were paid for PTO without supporting documentation in the file.

Suggestion: Management should keep employee files up to date and make sure all pertinent information is included.

\* \* \* \* \*

Problem: In its plant ledger, the facility includes many assets which cost less than \$5,000, the allowable capitalization minimum for Medicare and Medicaid purposes. All assets in the plant ledger must be depreciated over their estimated useful lives, requiring several years before costs can be recovered through Medicare and Medicaid reimbursement. Further, the added volume of assets increases the recordkeeping burden of maintaining the plant ledger.

Suggestion: Management should consider increasing its capitalization floor to \$5,000 to allow increased reimbursement in the year of smaller asset purchases and reduce the future burden of maintaining its plant ledger.

\* \* \* \* \*

Problem: The Facility is depreciating some fixed assets using useful lives that are not in accordance with AHA guidelines. As a result the facility is including incorrect depreciation amounts in its cost report.

Suggestion: Management should follow AHA guidelines when depreciating asset additions.

\* \* \* \* \*

Problem: Certain employees' timecards did not match the hours paid on the payroll register during the periods selected for testing. The amounts were immaterial and no adjustment was proposed.

Suggestion: Management should make sure that hours paid match the timecards, and any discrepancies be explained.

\* \* \* \* \*

Problem: The salaries for various administrative nurses were adjusted out of Line 1b. Per the instructions, the amount adjusted out of Line 1b is the non-patient centered time, and "this proportion should directly correspond to the percentage stated on the wage survey." There were two items listed on the adjustment, CASD and CSC1, which were adjusted off. However, these employees were not listed on the Nursing Wage Survey as Administrative Nurses.

Suggestion: Management should make sure that the information on the Nursing Wage Survey and the Cost Report match when filing these reports.

\* \* \* \* \*

Problem: Payroll expense is calculated using the actual wages paid for the period, less the prior year accrual, plus the current year accrual. There were no accrued wages calculated at June 30, 2004, although there was an accrual at June 30, 2005. The accrual at June 30, 2004 should have been for 11 days, or approximately \$140,000. Consequently, payroll expense for the fiscal year as shown on the cost report is overstated by that amount.

Suggestion: As salaries are such a large component of costs, it is very important that they be accurate. Management should make sure that the payroll costs on their reports are accurate and cover the appropriate periods. Although it does not appear as if the June 30, 2004 accrual was included on that period's cost report, Management should be consistent in their application of accounting principles.

\* \* \* \* \*

The Facility has reviewed the above matters and the Schedule of Adjustments. Written responses received by us during the comment period were considered and, if acceptable, mutually agreed-upon modifications have been reflected in our reports. Any further modifications and administrative follow-up will be handled by the Department of Health and Social Services of the State of Delaware.

This report is intended solely for the information and use of the Office of Auditor of Accounts of the State of Delaware, the Department of Health and Social Services of the State of Delaware and the Board of Directors and management of Milford Center, Office of the Governor, Office of the Controller General, Office of the Attorney General, Office of the Budget, and the Department of Finance. However, under 29 Del. C. Section 10002 this report is public record and its distribution is not limited.

*McBride, Shopa & Co*

Wilmington, Delaware  
March 2, 2008